

*This brochure provides you with an overview of sub-prime mortgage lending and highlights the differences from conventional mortgage lending. It also advises consumers on how to protect themselves from unscrupulous lenders.*

*How does a sub-prime mortgage differ from a conventional mortgage? Sub-prime mortgages allow borrowers with low incomes or bad credit ratings access to home financing. They are known as “B”, “C”, or “D” loans and usually have higher interest rates and fees. Often the borrower is left with a large final “balloon” payment, which must be paid to satisfy the debt. Additionally, these type of loans are more apt to carry a prepayment penalty. Conventional mortgages have lower interest rates and fees. Conventional mortgages are known as “A” loans and generally do not require a “balloon” payment.*

*Regardless what type of loan you obtain, you may be required to pay points. Sub-prime lenders generally charge more fees and points than conventional lenders. The amount you pay in points becomes part of the annual percentage rate of your loan.*

## Defining Points

Points are prepaid interest added to a loan in addition to the stated interest rate and any other fees a borrower pays to a lender to obtain a loan. A point is equal to 1% of the loan amount you are borrowing. Assume a \$60,000 mortgage loan with 1 point; one point means you will pay \$600 in addition to the interest and any other fees associated with the loan.

## Shopping For A Mortgage Loan

Consumers should shop around for the best deal. Mortgage lenders offer different rates, terms, and conditions. Using local papers to check rates, surfing the Internet, evaluating mortgage ads on TV, radio, and in the print media or asking a friend or relative who has been through the process are several ways to seek the best mortgage deal. Be sure to talk to at least three (3) different lenders before making a final decision. No matter how good a deal sounds, it is important to compare fees, interest rates, Annual Percentage Rates, and prepayment options.

Most sub-prime lenders are legitimate businesses that seek to provide credit accessibility to people with low incomes or spotty credit histories. However, a few may use unfair business practices that take advantage of unsophisticated borrowers and saddle them with predatory rates, terms, and conditions. This increases the likelihood of foreclosure by making it difficult, if not impossible, to make your sub-prime loan payments on time.

## Defining An Annual Percentage Rate

The annual percentage rate (APR) is the cost of credit shown as a yearly rate. Although the APR is not a calculation of your monthly payment, it does show how much a loan will cost including all fees and points.

## Protect Yourself From Unscrupulous Sub-Prime Lenders

- Never deal with a door-to-door salesperson or a telephone solicitor in regards to a home mortgage loan.
- Always ask a lender if you qualify for a conventional mortgage before agreeing to a sub-prime mortgage product.
- Remember the old saying, “If it sounds too good to be true, it probably is.”
- Before you sign any documents, shop around for the best deal.
- Always read the loan documents carefully to determine the interest rate, fees, points, and terms of your loan. If the APR seems particularly high, ask for an explanation. If you don’t understand the contract, have an attorney of your choosing review it.
- Walk away from high pressure sales tactics to sign a loan contract right away. If the offer is good today, it should be good tomorrow.
- Be aware of your right to cancel any loan within three (3) days. Make sure the lender provides you with a Notice of Rescission or a Notice of the Right to Cancel.

## What To Do When Applying For A Sub-Prime Mortgage

Check to see if your lender is licensed and verify if any consumer complaints have been filed with your local Better Business Bureau; Chicago 312-832-0500, Peoria 309-688-3741, and Rockford 815-963-2222. The Better Business Bureau will charge you for this information, but it may be one of the best calls you ever make.

- Make sure you can afford the monthly mortgage payments. Being “qualified” for a loan doesn’t necessarily mean you can afford it.
- Examine the entire loan. Ask for an explanation of all fees, charges, terms, and conditions. Make sure everything is competitive and fair.
- Be sure to shop around. Find out what other lenders are charging. Compare for the best offer.
- Make sure all promises are in writing and that a company representative signs and dates the document. Immediately obtain a copy and keep it for your records.
- Getting pre-loan advice from a credit counseling service can be a big help, call 1-800-493-2222.
- Call your local Bar Association if you need assistance in obtaining affordable legal counsel (see your local phone listings).

## What Not To Do When Applying For A Sub-Prime Loan

- Never deal with an unlicensed lender, broker, or home improvement contractor purporting to act as a lender or broker.
- Avoid telephone and direct mail solicitations. Too high a percentage of these may not be legitimate offers. Initiate the transaction yourself with a lender that you have checked out.
- Before you sign any documents be sure there are not any blank spaces or missing dates.
- Don’t allow a lender to inflate your earnings or net worth to qualify for a loan.
- Don’t allow a lender to pressure you into a deal. Allow yourself some time to mull it over or discuss it with others.
- When a lender says you have no other options, don’t believe him.

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